

Board of Investments:

The Board of Investments invest all state funds in the Unified Investment Program, established under Article VIII, Section 13 of the Montana Constitution. Local governments may invest in the Short-Term Investment Pool. The six investment pools listed below and several individual portfolios are managed.

1. Retirement Funds Bond Pool
2. Trust Funds Bond Pool
3. Short Term Investment Pool
4. Montana Domestic Stock Pool
5. Montana International Equity Pool
6. Montana Private Equity Pool

Annual audited financial statements are prepared for each investment pool. Investments not managed in pools are included in an "all other funds" financial statement. The In-State Investment Program consists of Montana residential mortgages and commercial loans. The Board also issues bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to our investment responsibilities, one of the main goals of the Board is to provide creative solutions to financial issues facing new and expanding businesses in the state of Montana. To accomplish this goal, the Board administers a number of different loan programs that can be specifically tailored to meet an individual business's or local government's needs.

The Board of Investments is funded with both enterprise and internal service type proprietary funds, and no direct appropriations are provided in HB 2.

Board of Investment responsibilities are mandated primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

Unified Investment Program:

The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Section 17-6-201, created the Board of Investments, and gave the Board sole authority to invest state funds. The Board also invests local government funds at their discretion. The Board currently manages an investment portfolio with a market value of \$9.4 billion. The Board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the Board manages several investment pools in which funds of similar types are invested. The Legislative Auditor audits the Board annually. The Board consists of nine members appointed by the Governor.

In-State Investments:

Section 17-6-305, MCA authorizes the Board to invest up to 25 percent of the Permanent Coal Tax Trust Fund to assist Montana's economic development. The "In-State Investment Program" makes business loans from the Trust in participation with financial institutions. The Board lends Trust Fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The Board also lends low-interest monies funded from the Trust to value-added type businesses creating jobs. The 2003 Legislative Session created an Intermediary Relending Program also funded from the Trust, for the purpose of lending monies to local economic development organizations with revolving loan programs.

Throughout Fiscal Year 2004, the Board also purchased Montana mortgages with pension funds as part of the In-State Investment Program.

INTERCAP Program:

The Board sells bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in fiscal year 1984 as part of the "Build Montana" program.

Mission:

- To prudently invest all individual funds in the best interest of each fund by diversifying holdings, maximizing return, and minimizing risk.
- To prudently invest 25 percent of the Permanent Coal Tax Trust in Montana businesses by participating in loans with financial institutions under the In-State Investment Program.
- To make low cost financing available to eligible governmental units by issuing tax-exempt bonds and lending the proceeds to governments under the INTERCAP Program.

Goals and Objectives:

- Meet or exceed all investment benchmarks established by the Board for each asset class.
- Increase Permanent Coal Tax Trust investments in Montana business to at least 25 percent of the total Trust as authorized by law.
- Increase Infrastructure Loans from the Coal Tax Trust to the maximum \$50.0 million authorized by law.
- Increase Value-Added Loans from the Coal Tax Trust to the maximum \$50.0 million authorized by law.
- Increase Intermediary Relending Program loans from the Coal Tax Trust to the maximum \$5.0 million authorized by law.
- Increase Bonds issued under the INTERCAP Program to \$120.0 million as authorized by law.

HB 576 Program Description:

Unified Investment Program:

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makes business loans from the Trust in participation with financial institutions. The Board lends Trust Fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The Board also lends low-interest monies funded from the Trust to value-added type businesses creating jobs. Throughout Fiscal 2004, the Board purchased Montana residential mortgages with pension funds as part of the In-State Investment Program.

INTERCAP Program:

The Board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in fiscal year 1984 as part of the "Build Montana" program.

The Board of Investments is funded by two proprietary fund types. Accounting entity 06014, an enterprise fund, funds the Intercap or Bond Programs. Accounting entity 06527, an internal service fund, funds the Investment Programs programs.

Board of Investment responsibilities are mandated primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

Board of Investments customers include: state agencies, the university system, local governments, financial institutions, and local economic development organizations.

There has been no significant change in the services provided by the Board of Investments from those provided in the last biennium, although the investment portfolio continues to grow in size.

HB 576 Revenues, Expenses, and Fund Equity:

Revenue Description:

Nearly all Bond Program revenues (accounting entity 06014, an enterprise fund) are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the Board's contract with the Montana Facility Finance Authority.

Nearly all Investment Program revenues (accounting entity 06527, an internal service fund) are generated from charges to each account that the Board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60 day working capital reserve.

The Board of Investments does not receive any direct appropriations.

FY 2004 base year funding, by fund type for the Investment Program, accounting entity 06527 is as follows:

	FY 2004	%
General Fund	\$ 55,220.04	1.866%
State Special	\$ 20,044.30	0.677%
Federal Special	\$ 2,488.61	0.084%
Proprietary	\$ 131,859.01	4.456%
Expendable Trust	\$ 62,077.13	2.098%
Non Expendable Trust	\$ 2,570,227.48	86.864%
Local Government	\$ 91,050.09	3.077%
University	\$ 22,472.59	0.759%
Debt Service	\$ 3,328.75	0.112%
Misc. Reimbursement	\$ 142.00	0.005%
Totals:	\$ 2,958,910.00	100.000%

Customer expenditure codes are not available because many customers are outside of state government and therefore do not record their financial activity on SABHRS.

Bond Program revenues (accounting entity 06014) are primarily recorded in the following SABHRS revenue codes:

	FY 2004	%
525130	\$ 7,938.53	0.353%
527054	\$ 261.26	0.012%
530008	\$ 279,872.54	12.428%
530010	\$ 78,020.91	3.465%
530014	\$ (234,793.97)	-10.426%
530021	\$ 2,057.14	0.091%
530023	\$ (12,920.50)	-0.574%
530025	\$ 3,582.44	0.159%
530029	\$ (33,176.35)	-1.473%
538043	\$ 2,143,369.94	95.176%
538044	\$ 17,784.59	0.790%
Totals:	\$ 2,251,996.53	100.000%

Investment Program revenues (accounting entity 06527) are primarily recorded in the following SABHRS revenue codes:

	FY 2004	%
521055	\$ 2,958,768.00	99.995%
522017	\$ 142.00	0.005%
Totals:	\$ 2,958,910.00	100.000%

Expense Description:

The major cost drivers within the Board of Investments are personal services, operating expenses and expenditures related to the periodic replacement of computer equipment. Additionally, over \$2.537 million was disbursed from accounting entity 06014 in FY 2004 via a statutory appropriation for debt service requirements related to the state's bonding activity.

FY 2004 base year expenditures, for accounting entity 06014 are as follows:

	FY 2004	%
FTE	3.00	
Personal Services	\$ 186,075.18	8.471%
Operating Expenses	\$ 158,926.90	7.235%
Debt Service	\$ 1,851,562.97	84.294%
Totals:	\$ 2,196,565.05	100.000%

FY 2004 base year expenditures, for accounting entity 06527 are as follows:

	FY 2004	%
FTE	31.00	
Personal Services	\$ 2,024,742.00	71.112%
Operating Expenses	\$ 822,509.31	28.888%
Totals:	\$ 2,847,251.31	100.000%

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Division's workload and customer levels will remain constant, although investment portfolios will continue to grow in size.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Investments is authorized 34.00 FTE (31.00 funded from accounting entity 06527, and 3.00 funded from accounting entity 06014) and personal services expenditures include Board Member Per Diem.

Working Capital Discussion:

Revenues for accounting entity 06014 are typically received on an annual basis, so a 270 day fund balance is required to provide adequate funding for the Bond Program between draws.

Revenues for accounting entity 06527 are assessed on a monthly basis; since collections lag by at least one month the Board must maintain a nominal working capital reserve to meet ongoing operational expenses.

Fund Equity and Reserved Fund Balance:

At the proposed rates, the Department projects a fiscal year end 2007 ending unreserved fund balance of approximately \$338,691.

Rate Explanation:

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level. This process has worked very well since the passage of HB 576 and this methodology is continued in the 2007 biennium because it provides an easy comparison with historical financial activity.

Significant Present Law:

The only present law adjustment for accounting entity 06527 is for administrative costs; such as overtime, fixed costs, and rent.

New Proposals:

There are no new proposals for accounting entity 06527.